

REPORT OF LIMITED SCOPE EXAMINATION  
OF THE  
CAREAMERICA LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2003

Participating State  
and Zone:

California

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San Francisco, California  
September 17, 2004

Honorable Alfred W. Gross  
Chairman of the NAIC Financial  
Condition (EX4) Subcommittee  
Commissioner of Insurance  
Virginia Bureau of Insurance  
Richmond, Virginia

Honorable John Morrison  
Secretary, Zone IV-Western, NAIC  
Commissioner of insurance and Securities  
Montana Department of Insurance  
Helena, Montana

Honorable John Garamendi  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, a limited scope examination was made of the

**CAREAMERICA LIFE INSURANCE COMPANY**

(hereinafter also referred to as the Company) at the primary location of its books and records, 651 North Cherokee Lane, Suite H, Lodi, California 95240. The Company's statutory home office and main administrative office is located at 50 Beale Street, San Francisco, California 94105.

**SCOPE OF EXAMINATION**

This is a limited scope examination, and the principal areas covered by this examination are (1) Loss Cycle; (2) Investment Cycle; and (3) Operating Cycle.

The previous examination of the Company was made as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2003. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of assets and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances.

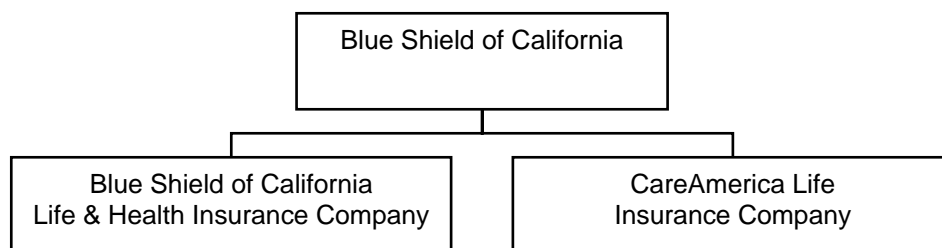
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers, employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and accounts and records.

### COMPANY HISTORY

On November 9, 1999, the board of directors of the Company authorized an increase in the par value of the Company's stock from \$150 per share to \$350 per share. This action was taken by amending the Company's articles of incorporation to provide that each outstanding share with a par value of \$150 was converted into and reconstituted as one share with a par value of \$350. The Company transferred \$1,453,400 from gross paid-in and contributed surplus to paid-in capital, bringing the total paid-in capital to \$2,543,450. On December 30, 1999, the California Department of Insurance approved the transaction.

### MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Blue Shield of California, an insurance holding company. The following abridged organizational chart depicts the Company's relationship within the holding company system:



Management of the Company is vested in a one-member board of directors elected annually. A listing of the member of the board and principal officers serving on December 31, 2003 are as follows:

#### Director

##### Name and Residence

Bruce G. Bodaken  
Mill Valley, California

##### Principal Business Affiliation

Chairman, President and Chief Executive  
Officer  
Blue Shield of California

#### Principal Officers

##### Name

Debra E. Bowles  
Seth A. Jacobs, Esq  
Steven B. Sturman  
Steven C. Schneider, FSA  
Robert D. Clifton  
Emmalee Noble

##### Title

President and Chief Executive Officer  
Secretary  
Treasurer  
Actuary  
Vice President  
Vice President

#### Management Agreements

Administrative Services Agreement: The Company and its parent, California Physician's Service dba Blue Shield of California (BSC) are parties to this agreement entered into on November 19, 1997. Administrative services provided to the Company include, but are not limited to, the following: personnel services; financial services management; information systems support;

facilities support; procurement support; insurance support services; legal services; life insurance claims processing and administrative services, medical management and underwriting services, and insurance agent contracting and appointment services; special investigations unit services; and such other administrative and support services as are agreed from time to time. Under this agreement, the Company reimburses BSC for the direct and indirect cost of all services provided to it. The Company reimburses BSC for 100% of the amount actually charged to BSC for items and services procured by BSC for the exclusive use of the Company. The Third Amendment of the Agreement has been filed with the California Department of Insurance for approval.

Agreement to Allocate Consolidated Tax Liability: The Company and its affiliates are part of a consolidated federal income tax agreement with its parent, Blue Shield of California (BSC), originally effective January 1, 1987. Under the terms of the agreement, the consolidated tax liability is apportioned among the members according to their proportionate contributions to the consolidated taxable income. Each member is only liable for its separate company liability. If the circumstances dictate that members file amended separate company returns for the prior consolidated return years, then each member will become liable only for its separate company liability as reflected on the amended returns for the years which become non-consolidated return years.

### CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes failed to provide any statements pertaining to the receipt of the examination report.

The Company's board actions regarding the authorization and approval of excess funds investments did not comply with the requirements of CIC Section 1201. Although the Company's minutes document the general authorization or approval of its investments, in compliance with CIC Section 1200, specific

references to amounts, facts and the values of the securities were not included as required under CIC Section 1201.

It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 735 and 1201.

### TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled life and health insurance company with licenses in Arizona, Louisiana, Nevada, New Mexico, North Dakota, and Oregon.

In 1997, CareAmerica Life Insurance Company and its HMO affiliate, CareAmerica-Southern California (CASC), were acquired by Blue Shield of California (BSC). In the second half of 1998, CASC's operations were merged into BSC's and CASC ceased to be a legal entity. The Company's primary source of business was the underwriting of group life and accident & health insurance, including point-of-service plans, issued under CASC's group policies to employers. As a result of this acquisition, beginning in the second half of 1998, CareAmerica group policies were not renewed, but group policyholders were offered similar coverages through BSC and Blue Shield of California Life & Health Insurance Company (BSCL&H), formerly known as CPIC Life Insurance Company (CPIC), a BSC subsidiary. Consequently, until October 1, 2003 the Company no longer had any group insurance in-force. The only direct business remaining was the Company's 20 medicare supplement policies, 11 accident and health insurance policies and 283 ordinary life insurance policies (of which 265 are paid-up totaling approximately \$31,000 of insurance) with a total combined annualized premium volume of less than \$29,000.

Effective January 1, 2003, the Company commenced writing short-term health insurance (Individual Accident and Health) in the state of Arizona. These policies were previously written by CPIC. This was necessary because CPIC was anticipating changing its name to BSCL&H. Due to Blue Cross Blue Shield Association rules and regulations, CPIC Life Insurance Company could not operate in the state of Arizona under the name BSCL&H. Therefore, BSCL&H is in the process of

withdrawing its Arizona Certificate of Authority. Because these policies are short-term health insurance policies with durations of one year or less, no consideration was paid to BSCL&H. Short-term health insurance premiums represented 78% (\$2,237,239) of the total direct premiums written in 2003 for all lines. Other products include group term life insurance written in North Dakota and individual term life insurance policies that are written in the State of Arizona.

Effective October 1, 2003, the Company agreed to “rewrite” BSCL&H’s life insurance policies written in North Dakota. This was necessary due to the same reasons as in Arizona. The total consideration paid for this business was \$1,643,134.

Effective October 1, 2003, the Company also agreed to enter an “assumption of risk” agreement with BSCL&H for individual life insurance policies written in Arizona. The Company has stated that it has executed and delivered to the individual term life policyholders an endorsement that substitutes the Company from and after the effective date for all the rights and benefits of the policies of insurance and shall assume all liabilities under these policies. The total consideration paid by the Company for this business was \$468,000.

Blue Shield of California provides sales and marketing services for CareAmerica products sold in California. Business in Arizona is marketed through CSA Marketing Resources, Inc., a subsidiary of Blue Cross Blue Shield of Arizona. Both of these organizations distribute through independent agents, brokers and consultants.

## REINSURANCE

### Assumed

The Company had no reinsurance assumed business.



## Ceded

The Company had no reinsurance ceded business.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2003

Summary of Operations and Capital and Surplus Account  
for the Year Ended December 31, 2003

Reconciliation of Capital and Surplus  
from December 31, 1998 through December 31, 2003

Statement of Financial Condition  
as of December 31, 2003

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 23,540,189	\$ 0	\$ 23,540,189	
Cash and short-term investments	2,459,754		2,459,754	
Contract loans	17,031		17,031	
Receivable for securities	83,067		83,067	
Investment income due and accrued	214,568		214,568	
Life insurance premiums and annuity consideration:				
Uncollected premiums and agents' balances	284,832		284,832	
Deferred premiums, agents' balances and installments	981		981	
Total assets	<u>\$ 26,600,423</u>	<u>\$ 0</u>	<u>\$ 26,600,423</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life policies and contracts			\$ 100,404	(1)
Aggregate reserve for accident and health contracts			175,078	(1)
Contract claims: Life			184,491	(1)
Contract claims: Accident and health			623,310	(1)
Premiums and annuity considerations received in advance			5,303	
Interest maintenance reserve			736,762	
Commissions to agents due or accrued			20,795	
General expenses due or accrued			172,963	
Taxes, licenses and fees due or accrued			114,147	
Current federal and foreign income taxes			142,746	
Net deferred tax liability			39,854	
Asset valuation reserve			26,308	
Payable for securities			54,955	
Aggregate write-ins for liabilities			<u>7,576</u>	
Total liabilities			2,404,692	
Common capital stock		\$ 2,543,450		
Gross paid-in and contributed surplus		2,987,900		
Unassigned surplus		<u>18,664,381</u>		
Capital and surplus			<u>24,195,731</u>	
Total liabilities, capital and surplus			<u>\$ 26,600,423</u>	

Summary of Operations and Capital and Surplus Account  
for the Year Ended December 31, 2003

Statement of Income

Premiums and annuity considerations	\$ 2,870,144	
Net investment income	1,093,861	
Amortization of interest maintenance reserve	68,457	
Aggregate write-ins for miscellaneous income	76,064	
Total		\$ 4,108,526
Death benefits	112,859	
Disability benefits and benefits under accident and health policies	1,074,790	
Increase in aggregate reserves for life and accident and health policies and contracts	175,955	
Commissions on premiums, annuity considerations	692,541	
General expenses	422,862	
Insurance taxes, licenses and fees, excluding federal income taxes	98,733	
Increase in loading on deferred and uncollected premiums	(23)	
Aggregate write-ins for deductions	2,116,102	
Total		4,693,819
Net loss from operations before federal income taxes		(585,292)
Federal income taxes incurred		(905,635)
Net income		\$ 320,343

Capital and Surplus Account

Capital and surplus, December 31, 2002		\$ 23,867,746
Net income	\$ 320,343	
Change in net deferred income tax	25,735	
Change in assets valuation reserve	(18,093)	
Net change in capital and surplus for the year		327,985
Capital and surplus, December 31, 2003		\$ 24,195,731

Reconciliation of Capital and Surplus  
from December 31, 1998 through December 31, 2003

Capital and surplus, December 31, 1998, per Examination			\$17,538,798
	Gain in Surplus	Loss in Surplus	
	<hr/>	<hr/>	
Net income	\$6,646,008	\$	
Change in net unrealized capital gains	4,991		
Change in net deferred income tax		2,233	
Change in nonadmitted assets and related items	379		
Change in asset valuation reserve	45,409		
Cumulative effect of changes in accounting principles		37,621	
Capital changes: Paid-in	1,453,400		
Surplus adjustment: Paid-in		1,453,400	
	<hr/>	<hr/>	
Total gains and losses in surplus	\$8,150,187	\$1,493,254	
	<hr/>	<hr/>	
Increase in capital and surplus			6,656,933
			<hr/>
Capital and surplus, December 31, 2003, per Examination			\$24,195,731
			<hr/>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Aggregate Reserve for Life Contracts, Aggregate Reserve for Accident and Health Contracts,

#### Contract Claims: Life and Accident and Health

The Company's reserves for life and accident and health policies were evaluated during the examination and have been accepted for purposes of this examination report.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Corporate Records (Page 4): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Sections 735 and 1201.

### Previous Report of Examination

Management and Control (Page 4): It was recommended that the Company amend the Administrative Service Agreement to accurately reflect its terms. The Administrative Service Agreement in question is no longer in effect and has been replaced with the new Administrative Service Agreement, effective November 19, 1997.

Management and Control (Page 5): It was recommended that the Company amend the Point of Service Plan Allocation Agreement to accurately reflect its terms. This agreement was in effect for a limited period of time during the acquisition of the Company by Blue Shield of California and has not been in effect for several years.

Corporate Records (Page 6): It was recommended that the Company implement procedures at its board meetings to ensure full compliance with California Insurance Code Section 735, 1200 and

1201. During the examination period, the Company has not complied with CIC Section 735 and 1201.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

\_\_\_\_\_  
Kyo Chu, CFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California